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ONE ARTICLE FROM DER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW  
ENDING 23 FEBRUARY 1978. REQUEST ARTICLE BEPASSED TO AMBASSADOR,  
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

PLEASE PASS TO US MISSION OECD.  
PLEASE PASS TO US MISSION TO EC.  
EGYPT: IMPROVED FINANCIAL PROSPECTS.

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1. SOARING PRIVATE TRANSFERS AND FAVORABLE OIL  
SECTOR DEVELOPMENTS HAVE SUBSTANTIALLY IMPROVED EGYPT'S  
FINANCIAL OUTLOOK. WE NOW EXPECT THE EXTERNAL FINANCIAL  
GAP TO BE, AT WORST, \$2.1 BILLION THIS YEAR AND \$1.7  
BILLION IN 1979. WITH DISBURSEMENTS FROM THE AID AND  
INVESTMENT PIPELINE LIKELY TO REACH \$1.5 BILLION ANNUALLY,  
THE UNFINANCED PORTION OF THE GAP SHOULD NOT EXCEED \$800  
MILLION FOR THE TWO-YEAR PERIOD. THIS SUM COULD BE LARGELY  
FINANCED WITH NEW AID REQUESTED FROM THE UNITED STATES,  
SUBSTANTIALLY REDUCING CAIRO'S DEPENDENCE ON ARAB ECONOMIC  
ASSISTANCE. WITH SOME LUCK, CAIRO COULD MANAGE WITHOUT ANY  
ARAB ECONOMIC ASSISTANCE.

BOOST IN TRANSFER EARNINGS.

2. MOST OF THE IMPROVEMENT IN EGYPT'S EXTERNAL  
ACCOUNTS REFLECTS INCREASED REMITTANCES FROM EGYPTIANS  
EMPLOYED OR DOING BUSINESS ABROAD. LAST YEAR, UNEXPECTEDLY  
LARGE REMITTANCES PROVIDED EGYPT WITH A \$500 MILLION SURPLUS  
TO APPLY TO 1978 BILLS. THIS YEAR, VOLUNTARY PRIVATE  
TRANSFERS ARE EXPECTED TO TOTAL \$1 BILLION--TWICE THE  
AMOUNT PROJECTED SIX MONTHS AGO. MOST OF THE INCREASE IS  
COMING IN THROUGH THE BLACK MARKET, WHICH THE GOVERNMENT  
TOLERATES DESPITE OPPOSITION FROM BANKING CIRCLES. EGYPTIAN  
FINANCIAL AUTHORITIES REALIZE A CRACKDOWN ON BLACK MARKET  
OPERATIONS WOULD HAVE TO BE ACCOMPANIED BY A DEVALUATION  
OF THE EXCHANGE RATE USED BY THE BANKS FOR HANDLING PRIVATE

REMITTANCES. WITHOUT A DEVALUATION THE PRIVATE INFLOWS WOULD ALMOST CERTAINLY DIMINISH.

3. TRANSFER PAYMENTS ARE ALSO BEING BOOSTED BY AN AMBITIOUS \$500 MILLION DEVELOPMENT BOND DRIVE CURRENTLY UNDER WAY. BANKS LOCATED IN EGYPT WERE THE MAIN SUBSCRIBERS TO A SIMILAR \$200 MILLION BOND ISSUE LAST YEAR. THE NEW DRIVE INVOLVES A STRONGER PROMOTIONAL EFFORT OUTSIDE THE COUNTRY, WHICH SHOULD RESULT IN A LARGE PARTICIPATION BY EXPATRIATED EGYPTIANS, ESPECIALLY IN SAUDI ARABIA.

#### OIL OUTLOOK BRIGHTENS.

4. OIL EXPORTS COULD MAKE A LARGER CONTRIBUTION TO THE BALANCE OF PAYMENTS THAN WE PREVIOUSLY ANTICIPATED. NEW DISCOVERIES IN THE GULF OF SUEZ AND FAVORABLE SEISMIC TESTS ON THE MAINLAND NEAR THE LIBYAN BORDER HAVE PROMPTED THE EGYPTIAN PETROLEUM AUTHORITY TO BOOST ITS OUTPUT PROJECTIONS. OTHER PROMISING AREAS LIE IN TERRITORY CLAIMED BY ISRAEL OR IN THE REGIONS SUBJECT TO ISRAELI HARRASSMENT AND EXPLOITATION WILL BE AFFECTED BY THE PENDING OUTCOME OF PEACE DISCUSSIONS.

5. AT LEAST ONE NEW SUEZ OIL FIELD, DEVELOPED BY THE GERMAN-LED CONSORTIUM DEMINEX, IS LIKELY TO BE ON STREAM SOMETIME IN 1979. UNLIKE AMOCO'S CONCESSION AREA IN THE GULF, WHICH HAS BEEN PERIODICALLY HARRASSED BY ISRAELI FORCES, THE DEMINEX FIELD IS LOCATED ON THE EGYPTIAN SIDE OF THE ISRAELI "MEDIAN LINE" AND DIRECTLY ACROSS FROM OILFIELDS ON THAT PORTION OF THE SINAI COAST RETURNED TO EGYPT. OUTPUT FROM NEWLY DEVELOPED FIELDS SHOULD ADD AT LEAST \$300 MILLION TO EGYPT'S OIL EXPORT RECEIPTS IN 1979; ANOTHER \$200 MILLION COULD BE ADDED IF HARRASSMENT WERE TO CEASE.

6. THE EGYPTIAN PETROLEUM AUTHORITY IS ALSO EXCITED ABOUT DEVELOPMENTS IN THE SOUTHERN DESERT; THIS AREA, ADJACENT TO THE LIBYAN BORDER, WAS HAPHAZARDLY EXPLORED BY SOVIET TECHNICIANS BEFORE THEIR EXPULSION. SEISMIC STUDIES CONDUCTED BY CONOCO, THE NEW CONCESSIONAIRE, INDICATE GEOLOGICAL STRUCTURES SIMILAR TO THOSE IN NEARBY LIBYAN FIELDS. THIS REGION OFFERS THE PROSPECT OF SUBSTANTIAL OIL RESERVES IN A PROTECTED INLAND AREA. AN ALL-OUT PUSH IN THE SOUTHERN DESERT COULD YIELD SOME OUTPUT BY THE END OF 1979.

THE FINANCIAL GAP NARROWS.

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7. THE INCREASE IN REMITTANCES, TRANSFER PAYMENTS, AND OIL EXPORT EARNINGS WILL SUBSTANTIALLY REDUCE EGYPT'S FINANCIAL GAP IN BOTH 1978 AND 1979. THE GAP THIS YEAR SHOULD NOT EXCEED \$2.1 BILLION AND COULD BE REDUCED TO AS LITTLE AS \$1.8 BILLION IF THE DEVELOPMENT BOND ISSUE ATTRACTS SUBSCRIBERS ABROAD. THESE FIGURES ASSUME A 1978 TRADE DEFICIT OF \$3.2 BILLION AND DEBT AMORTIZATION OF \$700 MILLION.

8. FOR 1979 THE FINANCIAL GAP WOULD DROP TO \$1.5 BILLION TO \$1.7 BILLION, DEPENDING ON THE LEVEL OF OIL EXPORT RECEIPTS. THE WORST CASE SCENARIO ASSUMES THAT OIL PRODUCTION IS LIMITED TO CURRENTLY PRODUCING FIELDS. IN THESE CIRCUMSTANCES, WE WOULD EXPECT THE 1979 TRADE DEFICIT TO APPROXIMATE \$2.8 BILLION, AND THE CURRENT ACCOUNT DEFICIT TO BE \$1.1 BILLION. DEBT AMORTIZATION WOULD PUSH THE FINANCIAL GAP TO \$1.7 BILLION. IF OIL PRODUCTION IS BOOSTED BY A FAVORABLE PEACE SETTLEMENT, OR RAPID DEVELOPMENT OF THE SOUTHERN DESERT, THE GAP COULD BE HELD TO \$1.5 BILLION.

AID PROSPECTS IMPROVE.

9. CAIRO IS IN A FAIRLY GOOD POSITION TO FINANCE THE 1978-79 EXTERNAL GAP EVEN IF THE DEFICITS STAND AT THE HIGH END OF OUR PROJECTED RANGE. BASED ON AID AND INVESTMENT COMMITMENTS ALREADY MADE, EGYPT CAN COUNT ON \$1.5 BILLION ANNUALLY, ENOUGH TO BRIDGE MOST OF THE FINANCIAL GAP. ADDITIONAL FUNDS COULD BE FORTHCOMING FROM ARAB SOURCES. IN PARTICULAR, THE SAUDI-SPONSORED GULF ORGANIZATION FOR THE DEVELOPMENT OF EGYPT (GODE) HAS ASSURED MORGAN STANLEY ASSOCIATES, THE US FIRM RESPONSIBLE FOR DISBURSING GODE FUNDS, THAT AS MUCH AS \$1 BILLION IN ADDITIONAL CASH AID MIGHT BE AVAILABLE IN 1978 TO FINANCE CERTAIN TYPES OF IMPORTS. GODE HAD BEEN COMMITTED TO PROVIDE ONLY \$550 MILLION IN CASH.

10. SAUDI WILLINGNESS TO PROVIDE NEW FUNDS TO CAIRO RIDES ON THE COURSE OF PEACE NEGOTIATIONS. RIYADH HAS THREATENED A COMPLETE CUTOFF OF AID IF EGYPT SIGNS A SEPARATE PEACE AGREEMENT. PARTLY TO HEDGE AGAINST SUCH A DEVELOPMENT, EGYPT HAS REQUESTED ANOTHER \$800 MILLION IN US AID, MOST OF IT IN IMPORT FINANCING THAT CAN BE DRAWN OVER THE NEXT TWO YEARS.

11. IN THE WORST CASE--IF EGYPT WERE DENIED NEW US

[REDACTED]

AID OR ADDITIONAL CASH FROM GODE AND FAILS TO SECURE A SETTLEMENT THAT EXPEDITES OIL PRODUCTION--CAIRO WOULD FACE AN \$800 MILLION UNFINANCED GAP IN 1978-79. EGYPT THEN WOULD RESORT TO HEAVY SHORT-TERM BORROWING AND HAPHAZARD PAYMENT OF INTERNATIONAL OBLIGATIONS, JEOPARDIZING ITS RECENTLY IMPROVED CREDIT RATING.

12. THE BEST CASE--A FAVORABLE SETTLEMENT COUPLED WITH NEW US AND ARAB AID--WOULD PUT EGYPT IN A SURPLUS POSITION, ASSUMING OUR TRADE PROJECTION HOLDS. WITH PORT CONGESTION CONTINUING TO LIMIT THE RISE IN IMPORTS, EGYPT COULD ACCUMULATE SUBSTANTIAL ASSETS OVER THE NEXT TWO YEARS FOR THE FIRST TIME IN 25 YEARS. RESERVES NOW STAND AT AROUND \$500 MILLION OR ONLY 10 PERCENT OF ANNUAL IMPORTS. THE RESULT OF AN INCREASE WOULD BE RELIEF, AT LEAST FOR A TIME, FROM THE PERIODIC LIQUIDITY CRISES THAT HAVE HANDICAPPED EGYPTIAN FINANCIAL MANAGEMENT FOR MORE THAN A DECADE. (CONFIDENTIAL) E1,2,3 IMPDET WNINTEL.>  
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